

MORGANTOWN ECONOMIC OUTLOOK 2015



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EXECUTIVE SUMMARY

The Morgantown MSA has been one of the strongest and steadiest-performing economic regions in West Virginia over the past decade. The metro area largely avoided the state and national economic downturns, posting healthy job growth in each of the last several years. Also, the unemployment rate has generally trended lower for the past four years and sits among the 50 lowest US metro areas. Morgantown also continues to grow in population—a trend that has gone on uninterrupted since 2000.

Several key facts behind Morgantown's recent economic performance are as follows:

- **Morgantown employers have added roughly 5,000 jobs since mid-2009.** Job growth did slow to roughly 1 percent in 2013, but even with this slowdown the cumulative gain in employment (9.0 percent) since the end of the Great Recession is significantly stronger than the state and nation as a whole.
- **Healthcare has led the way in job growth in recent years,** driven heavily by expansion activity at WVU Hospitals and the Mon General Health System. Manufacturing and the consumer-driven sectors of retail and leisure and hospitality have also contributed to growth in a significant way.
- **Not all sectors have added a significant number of jobs over the past few years.** Employment within natural resources and mining has declined as a result of falling coal mine employment while the public sector has seen payrolls remain flat due to state and federal budget concerns.
- **Although Morgantown's unemployment rate has risen since the beginning of 2014, the rate remains substantially lower than West Virginia and national averages.** The rise is primarily due to new entrants into the labor force.
- **Labor force participation is higher in the Morgantown metro area compared to the state overall.**
- **Per capita personal income has grown at an average annual rate over the past five years that exceeds that of both the state and nation.** Both wage and non-wage sources of income have contributed to strong gains in personal incomes.
- **Morgantown has posted the second-largest increase in population of any West Virginia region, lagging only the Eastern Panhandle.** Over the past 10 years, Morgantown's resident population increased nearly 17 percent, whereas the remainder of the state gained only a modest number of people.

The metro area's population is significantly younger and much more highly educated on average than the overall state population.

Our forecast calls for continued healthy growth in the Morgantown metro area over the next five years. Key aspects of our forecast are as follows:

- **We expect employment to grow at an annual rate of 1.4 percent per year in Morgantown over the next five years.** While this rate is down from what has been enjoyed over the past ten years, it surpasses expected growth for West Virginia overall by a sizable margin (0.9 percent). At the same time, Morgantown will see job growth that is roughly on par with the national average (1.5 percent).
- **The education and health services sector is expected to produce the fastest rate of job growth going forward,** with a forecast of 2.8 percent average annual job growth. Professional and business services, construction, and consumer-oriented sectors are other major sectors expected to add jobs at above average rates.
- **Unemployment is expected to continue to fall over the next five years, and will likely remain significantly lower than state and national jobless rates throughout the outlook period.** This comes on top of a projected increase in the labor force in the region.
- **Real per capita personal income is expected to increase at an annual average rate of 2.3 percent over the next five years.** This rate of growth is on par with West Virginia as a whole, but lags expectations for the nation (2.7 percent).
- **Morgantown's population is expected to grow at a rate of 1.0 percent annually in coming years.** While this does represent a deceleration from the rate of population growth in the region over the past decade, it stands in sharp contrast to the slight population decline that is expected in the state overall.

MORGANTOWN MSA RECENT ECONOMIC PERFORMANCE

The Morgantown, WV metropolitan area¹ remains the state's most consistent-performing economy. After remaining fairly stable during the Great Recession, the region has generally enjoyed a robust pace of job growth. Although job growth did decelerate to roughly 1 percent for calendar year 2013, businesses in Monongalia and Preston counties have added on net more than 5,000 new jobs between mid-2009 and the first quarter of 2014. Overall, this amounts to a cumulative increase

of more than 9.0 percent over this time period, significantly outpacing gains of 1.6 and 4.9 percent recorded statewide and for the nation as a whole, respectively.²

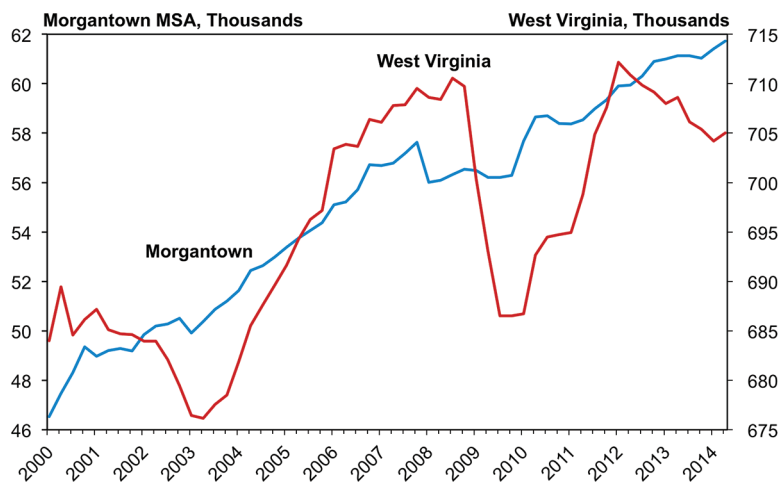
Monongalia County operates as the region's economic center, thanks in large part to the presence of West Virginia University. The combined impact of roughly 29,500 students and more than 6,700 faculty and staff acted as a stabilizing force during the economic downturn observed nationally and in other parts of West Virginia. Furthermore, expansion of WVU's footprint has provided a significant boost to the metro area's economy via the addition of more than 2,000 enrolled students since 2006 and the construction and renovation of several major facilities around campus.

Overall, total employment in Monongalia County has remained on a general upward trend since 2008, with businesses adding 5,700 jobs on net since the beginning of 2008. By comparison, Preston County's economy endured a relatively significant recession as payrolls contracted 11 percent between the third quarters of 2007 and 2009. The county's economy has recovered somewhat over the past 4+ years, but total employment remains approximately 4 percent below its pre-recession peak.

In addition to WVU, federal installations such as the Department of Energy's National Energy Technology Laboratory, NIOSH and US Bureau of Prisons make the public sector a key part of the Morgantown economy. All told, federal, state and local government employment account for nearly 1 in 4 jobs locally. Budgetary pressures have generally weighed on all three levels of government in most locales over the past several years, but Morgantown's public sector has avoided this difficulty largely as total government payrolls have trended higher since the beginning of 2008.

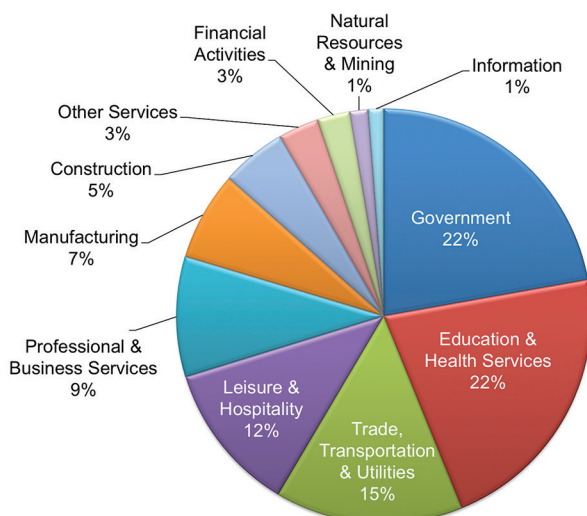
Healthcare is also a critical players in Morgantown's economy. Ruby Memorial and the Mon General Hospital System employ more than 8,000 people in the region. WVU Hospitals is in the midst of a series of expansions, including the construction of a 114-bed tower at Ruby Memorial and a new outpatient care facility adjacent to the University Towne Center complex. Mon General

FIGURE 1: Total Employment



Sources: US Bureau of Labor Statistics, Workforce WV

FIGURE 2: Morgantown Employment Distribution Sector (2013)



Source: US Bureau of Labor Statistics

¹ For the purposes of this report, The Morgantown, WV metropolitan statistical area is comprised of two counties: Monongalia and Preston counties.

² Sources for historical information are noted in each figure.

has invested heavily in additions and renovations over the past several years and is also in the process of building three smaller facilities dedicated to outpatient and surgical care. As a result of these expansions and steadily-rising healthcare demand both regionally and nationally, healthcare providers have added more than 1,300 jobs since 2009—the largest absolute gain in employment for any sector in the metro area.

The beginning (and end) of numerous large-scale projects has created a great deal of volatility for Morgantown's construction sector over the years, but the sector has generally seen payrolls trend higher for more than a decade—reflecting a consistently-growing economy. In addition to the projects associated with WVU Hospitals and Mon General, the sector has directly benefited from WVU undertaking a number of large-scale expansion and renovation plans for buildings and infrastructure across the various campuses. Several major projects have recently been completed or are still underway, including the CPASS/student health and wellness building, a new advanced engineering research facility, a new building for the College of Agricultural Sciences and additions/renovations to the Law School. WVU's Athletic Department is also overseeing a series of facility upgrades totaling more than \$100 million, along with the construction of the new baseball stadium adjacent to University Towne Centre.

In terms of residential construction activity, the Morgantown metro area has seen the level of new single-family housing starts remain stable for nearly the past five years. Overall, new home construction has averaged roughly half the pace observed during the peak housing boom years. Due to the region's underlying demographics, multifamily housing is a key segment of Morgantown's construction sector. Thanks to major projects such as University Place and University Park, the number of multifamily units started over the past two years is at its highest level in more than a decade.

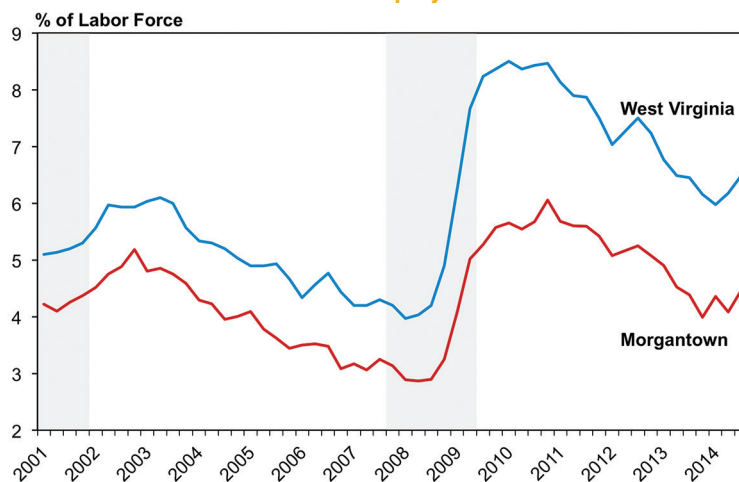
Consumer-oriented sectors operating in Morgantown have registered healthy job growth for several years. Morgantown's retailers have managed to recover essentially all of the jobs that were lost during the national economic downturn, while the metro area's leisure and hospitality sector has expanded on a fairly consistent basis over the last 10 years, adding approximately 1,000 new jobs on net since the beginning of 2010. Steady growth in employment and personal income has certainly been a boost to spending at stores, restaurants, hotels and other consumer-dependent businesses; however, University Towne Center, Suncrest Towne Center and Fort Pierpont (currently under construction) have had the largest impact.

Manufacturing activity has rebounded at a strong pace locally after slipping during the national economic downturn. In fact, the sector has seen payrolls surpass their pre-recession peak. While slipping somewhat in recent quarters, Morgantown's professional and business services sector has performed well over the past several years, having gained nearly 1,000 new jobs since the beginning of 2008. In addition to impacts associated with university's research and other activities, the metro area has also experienced strong job growth at front- and back-office business support services, including temp agencies, legal services and management consulting.

After seeing a strong performance from the beginning of 2010 through late 2012, Morgantown's natural resources and mining sector has struggled significantly. Most of the weakness can be traced to the region's coal mining industry. According to data from the Mine Safety and Health Administration, coal production from Monongalia County mines fell 6.5 percent during 2013 and has dropped more than 21 percent since 2011. Coal production has improved through the first half of 2014, rising 12.5 percent compared to the same period a year ago.

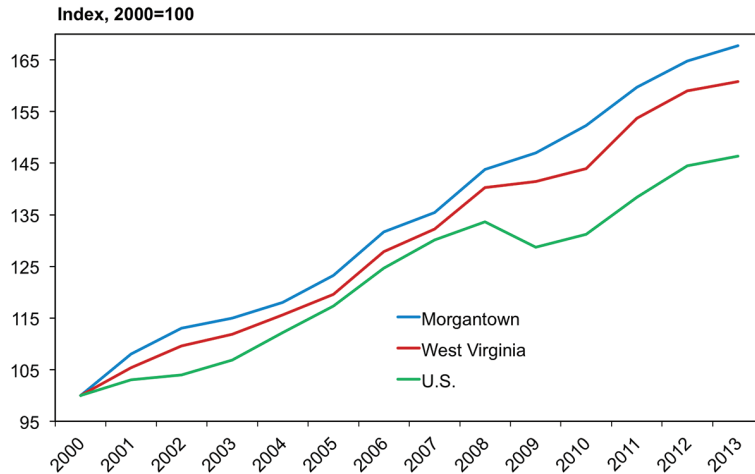
One bright spot for the sector has been the broader regional expansion in natural gas extraction from the Marcellus Shale formation. While the metro area accounts for a relatively small share of total statewide gas production, Monongalia County has seen appreciable growth in the number of drilling and gas field support firms due to the proximity of major production fields in neighboring Wetzel and Marion counties in West Virginia and adjacent areas in southwestern Pennsylvania. Morgantown consistently possesses one of the lowest

FIGURE 3: Unemployment Rate



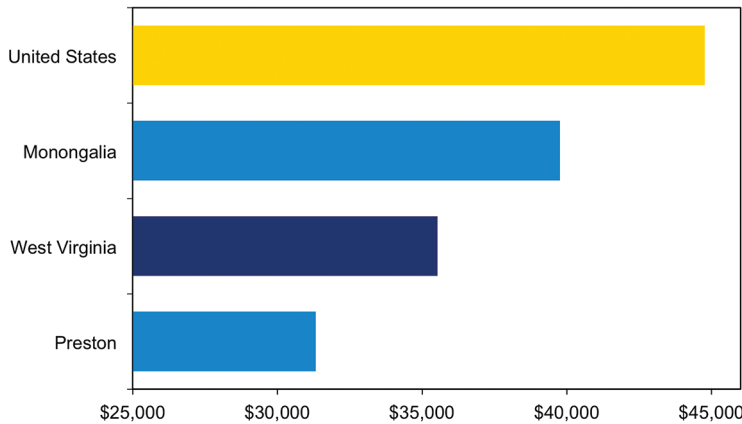
Source: US Bureau of Labor Statistics

*Shaded regions indicate recessions; data are seasonally adjusted

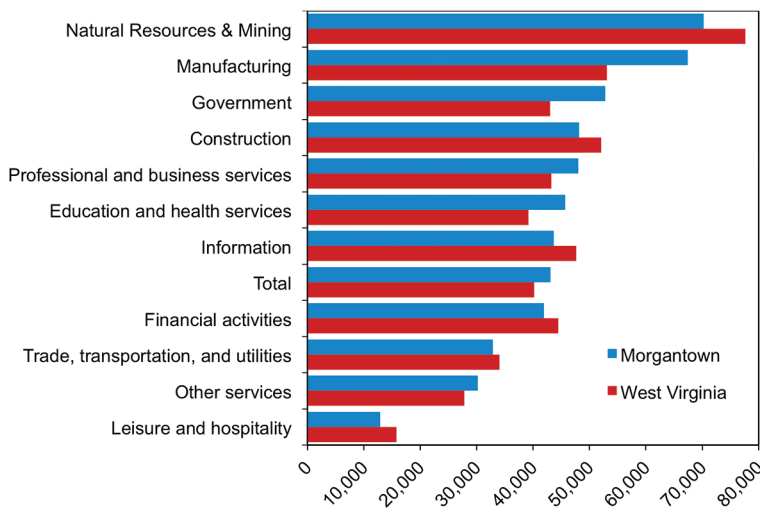
FIGURE 4: Per Capita Personal Income

Source: US Bureau of Economic Analysis

*Note: The 2013 figure for Eastern Panhandle is an estimate.

FIGURE 5: Per Capita Personal Income by County

Source: US Bureau of Economic Analysis

FIGURE 6: Average Annual Salary by Major Sector (2013)

Source: US Bureau of Labor Statistics

Note: Construction and Natural Resources & Mining reflect averages through 3rd quarter.

unemployment rates in West Virginia and also ranks as one of the lowest nationally on many occasions. The metro area's jobless rate bottomed out at 2.9 percent in 2008, but did rise measurably during the national economic downturn, reaching a peak of 6.1 percent during the fourth quarter of 2010. Since that point, Morgantown's unemployment rate has generally declined, falling to the low-4 percent range in late 2013-early 2014. The local jobless rate did climb to 4.5 percent during the third quarter of 2014, but still remains nearly two percentage points lower than the statewide rate and 1.6 points lower than the national average.

While the uptrend in Morgantown's unemployment rate might be cause for concern, most of the increase can be attributed to unemployed residents joining the labor force. Indeed, the metro area's labor force has grown by more than 1,700 between the third quarters of 2013 and 2014 and more than 10 percent of those did not have a job. Overall, 58 percent of the metro area's population 16-years and older participates in the labor force, which falls roughly in between statewide (54 percent) and national averages (64 percent).

Per capita personal income for the Morgantown MSA was estimated at approximately \$37,600 during calendar year 2013, without adjusting for inflation. This marked a 1.8 percent rate of growth versus 2012. In addition, the two-county region enjoyed gains of nominal per capita income levels throughout the economic downturn, averaging 3.1 percent growth per year since 2008. This rate of income growth is slightly higher in comparison to the rest of the state and nearly double the rate of growth observed nationally (1.8 percent per year).

Monongalia County residents have the highest per capita income of the two counties that make up the metro area at approximately \$39,800. The county's industrial mix, namely the presence of thousands of WVU faculty and staff plus other workers in highly-paid public and private sector industries, puts income levels around \$4,000 higher than the state as a whole and ranks it among the top five of West Virginia's 55 counties. Per capita income levels in Preston County are measurably lower at an estimated level of nearly \$31,300 in 2013.

Morgantown's population has increased at a fairly rapid pace over the past 20 years, adding more than 28,000 residents since 1992. Moreover, most of this growth has occurred within the past decade as the overall population expanded by approximately 20,000 residents since 2003. Although Monongalia County has typically enjoyed the stronger gains of the two counties over the last ten years, both counties have generally registered population growth over the last 10 years. During 2013, however, Preston County posted an outright decline in the number of residents for the first time since 2000.

The Morgantown MSA's underlying demographic trends and characteristics, particularly Monongalia County, look quite different in comparison to the rest of the state. Indeed, both Monongalia and Preston counties have typically gained residents via natural increase (births minus deaths) and positive net migration over the past decade. Morgantown is also very young compared to state and national norms. Preston County does

contain a large share of elderly residents, the presence of more than 29,000 college students puts the metro area's overall median age (33.4) more than 8 years younger than the statewide average. Finally, the metro area also contains a more highly educated population, with nearly 32 percent of residents over the age of 25 holding at least a bachelor's degree. For Monongalia County this share surpasses 39 percent.

FIGURE 7: Summary Population Profiles

	Morgantown	West Virginia	United States
Total Population (2013)	136,133	1,854,304	316,128,839
% Population Under 18 (2013)	16.8%	20.6%	23.3%
% Population 65 Years + (2013)	12.1%	17.3%	13.7%
Population with Less than High School Diploma (2013, % of pop. 25 yrs. +)	11.5%	15.5%	13.7%
Population with High School Diploma, No College (2013, % of pop. 25 yrs. +)	34.4%	40.6%	28.0%
Population with Some College (2013, % of pop. 25 yrs. +)	22.4%	25.0%	29.1%
Population with Bachelor's Degree or Higher (2013, % of pop. 25 yrs.+)	31.8%	18.8%	29.1%
Median Age (2013)	33.4	41.9	37.6
Mean Household Income (2013)	\$61,479	\$55,469	\$72,897
Average Household Size (2013)	2.56	2.44	2.64

MORGANTOWN MSA OUTLOOK

Expectations for the US economy during the forecast horizon will have a significant impact on the Eastern Panhandle's performance going forward.³ Our forecast calls for the economic recovery to continue over the next five years. Projected economic growth at the state and national level during the outlook period bodes well for Morgantown and should allow the local economy to enjoy above-average growth through the end of 2019.

We anticipate total employment will increase at a rate of 1.4 percent per year. This marks a slower rate of job growth compared to the past 10 years, but will allow Morgantown to remain one of the state's strongest- and

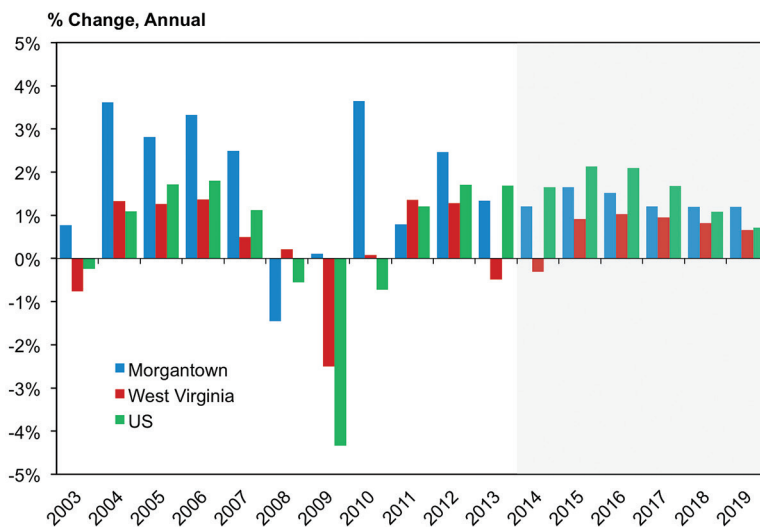
most consistent economic regions. The metro area is expected to outperform the statewide average of roughly 0.9 percent, and will generally be on par with the 1.5 percent per year increase expected for the US over the next five years. Between the metro area's two counties, Monongalia County is expected to enjoy the strongest rate of job growth during the 2014-2019 outlook period, averaging 1.5 percent per year. Payrolls in Preston County are expected to grow going forward, but the rate of growth will be appreciably slower and lag both state and national averages by a sizable margin.

Our forecast calls for education and health services to be the fastest-growing sector in terms of employment, expanding at an average annual rate of 2.3 percent per year between 2014 and 2019. Most of this growth will be directly attributable to ongoing expansion activity for WVU Hospitals and the Mon General Health System in Monongalia and Preston counties. However, given that Morgantown serves as a hub for many types of healthcare services for residents across the state of West Virginia, an aging population with generally poorer health outcomes will increase demand further over the next five years. Also, the expanded availability of health insurance under the Affordable Care Act is also expected to bolster demand for healthcare.

The professional and business services sector will likely continue to grow at a healthy pace during the outlook period, with an expected average annual gain of 1.8 percent through 2019. The presence of WVU and a host of federal and private research facilities will continue to facilitate technology transfer and innovation in the area that should provide for spillover effects that ultimately foster additional job growth. In addition, a firming national economic recovery should lead to increased demand for a range of business support activity, including legal, accounting and IT services.

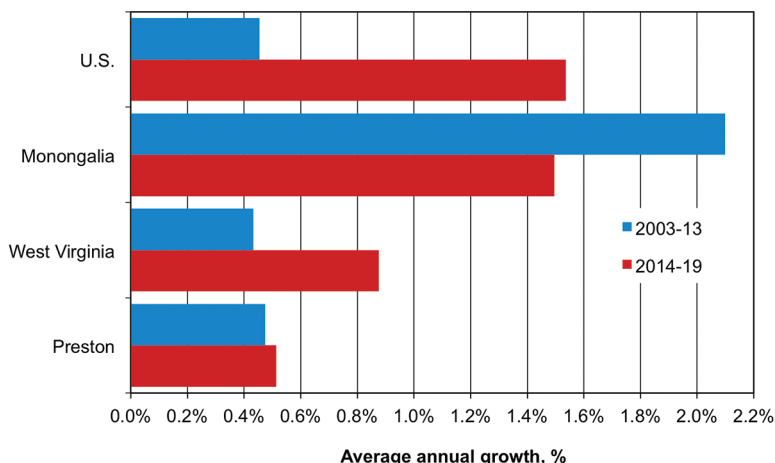
Construction activity is expected to remain at a healthy level during the outlook period, particularly over the next two to three years. Overall, the construction sector is expected to add jobs at a pace of 1.8 percent per year. Ongoing and planned projects associated with WVU will account for a wide majority of new construction jobs created during the outlook period, but will also include some infrastructure development such as the planned traffic interchange off I-79 to access the baseball stadium and University Towne Center.

FIGURE 8: Employment Growth Forecast



Sources: Bureau of Labor Statistics; Workforce WV; WVU BBER Econometric Model; IHS Global Insight
 *Note: Morgantown MSA and WV use covered employment; Shaded region represents the forecast period

FIGURE 9: Morgantown MSA Employment



Sources: Workforce WV, WVU BBER Econometric Model

³ All forecast estimates presented herein are derived from the West Virginia University Bureau of Business & Economic Research Econometric Model unless otherwise noted.

Morgantown's consumer-driven sectors, namely leisure and hospitality and the retail portion of trade, transportation and utilities, are projected to see job gains of roughly 1.7 percent annually during the next five years. In addition to the demand created by population and income growth, the continued build-out of major developments such as University Towne Center, Suncrest Towne Center and Fort Pierpont will add a host of new retail, dining, lodging and entertainment businesses to the area.

The metro area's natural resources and mining sector is expected to register job growth of around 1 percent per year through 2019. Some uncertainty does exist for the region's coal industry, largely related to environmental policy shifts and competition from natural gas for electricity production. However, the sector's relatively positive outlook in Morgantown will stem largely from oil and gas production in the Marcellus Shale across northern West Virginia and southwestern Pennsylvania. Manufacturing payrolls are projected to rise at a rate of nearly 1 percent per year, thanks to a mix of growth in pharmaceuticals, wood products and machinery manufacturing.

Public sector employment in the Morgantown metro area is expected to grow 0.3 percent per year between 2014 and 2019. Most of these gains will likely occur in the state and local government segments, reflecting the continued expansion of the university's footprint and population growth within Monongalia County. We do not anticipate any major problems for the region's federal employers, but sequestration and broader long-term concerns over the federal budget create the likelihood of minimal growth at best for federal agencies operating in Morgantown.

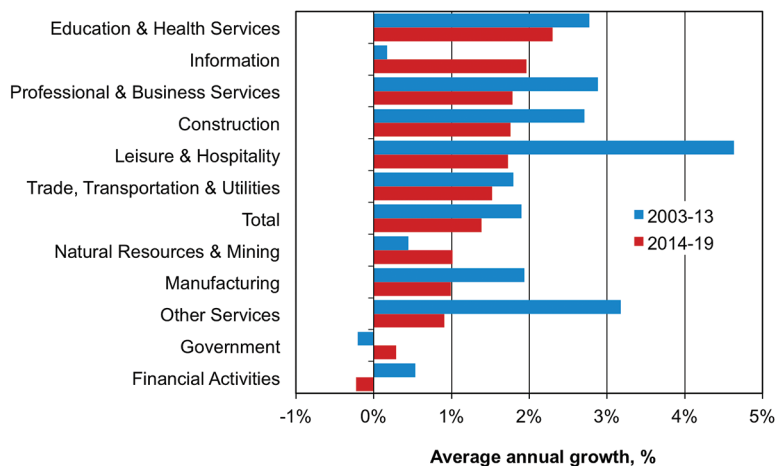
Healthy job creation will cause Morgantown's unemployment rate to fall steadily during the 2014-2019 outlook period. After an expected calendar year average of 4.3 percent in 2014, our forecast calls for the jobless rate to decline gradually in successive years to approximately 3.5 percent. Monongalia County will likely see its unemployment rate hover in the low- to mid-3 percent range over the latter half of the forecast horizon while Preston County should fall to around 4.3 by 2018. Both counties are expected to maintain unemployment rates well below state and national averages throughout the outlook period.

Inflation-adjusted per capita income growth in the Morgantown MSA is projected to increase at an average annual rate of 2.3 percent through 2019. Growth will fall in line with the statewide average, but will lag the 2.7 percent per year rate of growth anticipated for the nation as a whole. Job growth in relatively high-wage sectors will translate into increases in real wages and salaries

earned by workers and continued improvements in equity markets should bolster local households' investment income. Finally, growth in transfer payments will accelerate during the latter half of the outlook period as more people in the metro area enter retirement.

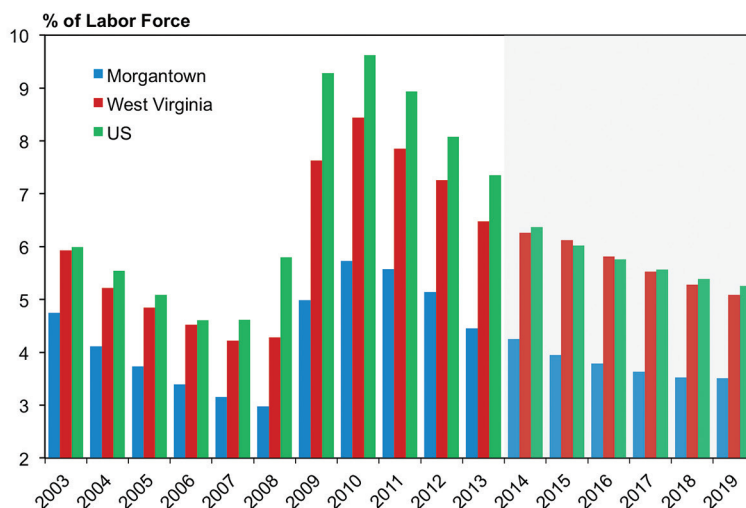
Morgantown's resident population is expected to increase 1 percent per year during the outlook period, measurably slower compared to the past 10 years. The metro area's population growth will occur mostly within Monongalia County, both in absolute and percentage terms, as the county is expected to gain residents at a rate of more than 1.2 percent annually. By comparison, the number of residents in Preston County will increase

FIGURE 10: Morgantown Employment Growth Forecast by Sector



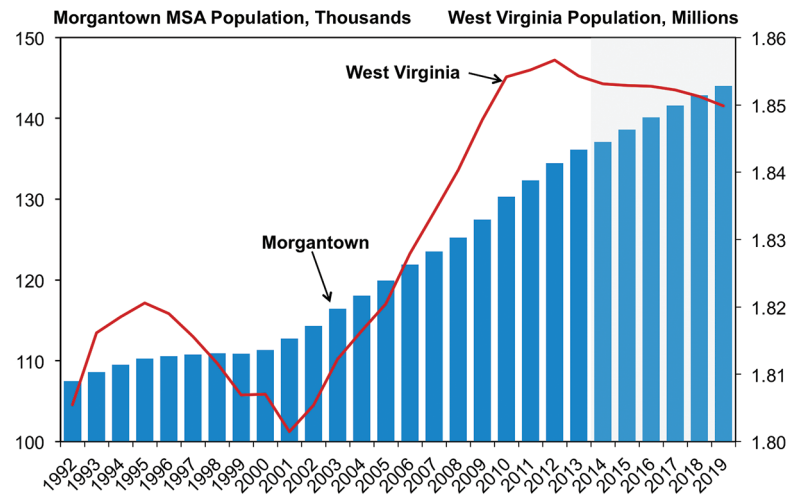
Sources: Workforce WV, WVU BBER Econometric Model.

FIGURE 11: Unemployment Rate Forecast



Sources: Bureau of Labor Statistics; WVU BBER Econometric Model; IHS Global Insight
Note: Shaded region represents the forecast period

FIGURE 12: Population Forecast



Sources: Bureau of Labor Statistics; WVU BBER Econometric Model
Note: Shaded region represents the forecast period

by 0.3 percent per year through 2019. Net migration flows are expected to remain positive in both counties, particularly Monongalia County, thanks to the relative health of the local job market and the presence of WVU and other major employers. Unlike many other parts of West Virginia, the Morgantown metro area is also expected to see its population grow as a result of natural increases (births outnumbering deaths).

APPENDIX A:

GLOSSARY OF TERMS

Annual Growth Rate	<p>between consecutive years is calculated as:</p> $\left(\frac{X_t}{X_{t-N}} - 1 \right) \times 100$
Average Annual Growth Rate	<p>is calculated for annual data as:</p> $\left[\left(\frac{X_t}{X_{t-N}} \right)^{1/N} - 1 \right] \times 100$
Gross Product	<p>is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products; calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Gross product can be calculated for various sized economies. This paper references Gross Product for counties (GCP), MSAs (GMP), states (GSP), and the domestic economy as a whole (GDP).</p>
Metropolitan Statistical Area	<p>is distinguished by a densely populated city or urban agglomeration with a population of 50,000 or more according to the US Office of Management and Budget; a county containing that city become the core of the MSA and if an adjacent county has at least 25 percent of its labor force commuting to or from the core area it is including in the MSA.</p>
Personal Income	<p>is the sum of the incomes of an area's residents; it is calculated as the sum of wages and salaries, proprietor's income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts less contributions for government social insurance.</p>
Per Capita Personal Income	<p>is the mean personal income within an economic aggregate, such as a country or city. It is calculated by taking a measure of personal income and dividing it by the total population. Per capita personal income is often used as average income, a measure of the wealth of the population of a nation, particularly in comparison to other nations.</p>
Population	<p>is the number of persons whose usual place of residence was within the area at the time the census was taken. It is also referred to as resident population. Persons in the military or institutionalized are counted where the military base or institution is located.</p>
Real	<p>data has been adjusted for inflation. Using real data eliminates the year-to-year changes in price and gives a clearer picture of the true changes in purchasing power, production, etc.</p>
Real Dollars	<p>dollar amounts have been adjusted for inflation. Using real dollars eliminates the year-to-year changes in price and gives a clearer picture of the true changes in purchasing power.</p>
Unemployment Rate	<p>is the percent of the civilian labor force that is unemployed. The civilian labor force is comprised of non-institutionalized persons 16 years of age or over who are employed or unemployed. A resident is considered to be unemployed for the month if that person is at least 16 years old and is not currently employed but is available and actively looking for work during the survey week (the week including the 12th of the month).</p>



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